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E.O. 12958: DECL: 09/30/2019
TAGS: ECIN ECON EFIN EIND EINV ELAB EMIN ENRG EPET
ETRD, PREL, VE
SUBJECT: GBRV USES ANTI-TRADE MEASURES TO PUNISH COLOMBIA

REF: A. BOGOTA 2960
¶B. CARACAS 1235

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Following President Chavez's July 28 announcement to freeze relations with Colombia, trade experts and business leaders in both countries downplayed the threat to bilateral trade and predicted that Chavez would not damage a mutually beneficial commercial relationship. But recent developments suggest that the Government of the Bolivarian Republic of Venezuela (GBRV) still intends to punish the Government of Colombia (GOC) by stifling bilateral trade through a combination of outright discrimination and bureaucratic red tape. END SUMMARY.

TOUGH LOVE

¶2. (SBU) Since President Chavez's announcement on July 28, the GBRV has followed through with a series of measures intended to limit bilateral trade. On August 5, President Chavez told reporters that Venezuela would no longer import automobiles from Colombia, charging that Colombian importers engaged in price speculation. On August 9, President Chavez said the GBRV would stop selling subsidized gasoline to Colombia. (Note: Under a previous agreement, the GBRV sold 11 million barrels of gasoline to Colombia per month at a cost of USD 1.50 per gallon. In Colombia, gas costs USD 3.5 per gallon; in Venezuela, gas costs USD 0.16 per gallon at the official rate of 2.15 bolivars per dollar. End note.) Although the agreement was due to expire on August 19, PDVSA President and Energy Minister Rafael Ramirez told reporters that the GBRV had canceled the contract to protest the US-Colombia Defense Cooperation Agreement (DCA). On August 23, Chavez ordered authorities to investigate Colombian companies in Venezuela for money laundering and ties to narcotrafficking. He said that Colombian businesses could be expropriated. "I love Colombia, but the Colombians should demand that their government respect Venezuela," Chavez said.

BUREAUCRATIC HURDLES AND RED TAPE

¶3. (C) The GBRV has also used existing bureaucratic controls to restrict the movement of goods and people between

Venezuela and Colombia. In May 2009, prior to Chavez's July announcements, Embassy Bogota reported that the National Institute of Venezuelan Aviation (INAC) stopped renewing passenger and cargo flight frequencies for Colombian airlines (ref A). Since July, Colombia's Avianca has lost seven flight frequencies and AeroRepublic has lost five. In addition, Venezuelan authorities have not renewed the permits for 16 weekly cargo flights from Colombia. Colombian authorities report that air cargo shipments have fallen by 36 percent in 2009. Meanwhile, the GBRV has ignored repeated GOC inquiries.

¶4. (SBU) On September 12, the Colombian newspaper Semana reported that the Venezuelan Commerce Ministry had refused to renew import authorizations for Colombian garments, footwear, and textiles. On September 16, the Big Three US auto assemblers in Venezuela told the Ambassador that, as of the end of 2009, they will no longer be permitted to import car parts from Colombia (ref B). Meanwhile, the number of Colombian products imported under the GBRV's preferential exchange rate system is shrinking. In 2008, 12 percent of Colombian products (by value) were imported under the Foreign Exchange Administration Board's (CADIVI) official exchange rate. In 2009, just 2 percent of Colombian products were imported under the official exchange rate, excluding some 668 Colombian imports. Colombian businesses also suffer from delays in CADIVI payments. As of September 2, CADIVI owed USD 310 million to 255 Colombian businesses, according to the Venezuelan Colombian Economic Integration Board (CAVECOL).

THE TIES THAT BIND

¶5. (SBU) Colombia is Venezuela's second largest trading partner after the US, accounting for 15 percent of Venezuela's total imports, valued at approximately USD 7 billion in 2008. Spurred by high oil prices, the trade relationship between the two countries has strengthened over the last three years: Colombian exports to Venezuela increased by 32 percent in 2006, 85 percent in 2007, and 21 percent in 2008, in spite of a diplomatic spat during which the border between the two countries was briefly closed. From 2005 to 2009, Colombia was Venezuela's most important supplier of beef and poultry, representing 69 percent of Venezuela's total beef and poultry imports, at a value of almost USD 2.4 billion. Colombian exports to Venezuela are about six times greater than Venezuelan exports to Colombia.

Percentage Breakdown of Colombian Exports to Venezuela (2005-2009)
In millions of USD
Source: Sintesis Financiera

Product Exports to VZ	USD	% of Total
Vehicles and parts	2,397.4	16.6
Apparel	1844.6	12.8
Beef and poultry	1686.8	11.7
Plastic products	1186.1	8.2
Boilers	1122.5	7.8
Machines and appliances	1091.5	7.6
Paper and carton products	878.8	6.1
Essential oils and resins	689.9	4.8
Processed food	632.0	4.4
Pharmaceutical products	601.9	4.2
Live animals	514.6	3.6
Tires and rubber products	462.3	3.2
Sugar and candies	375.6	2.6
Milk, dairy, eggs, honey	316.4	2.2
Steel products	266.1	1.8
Salt, sulfur, minerals	218.6	1.5
Mineral combustible products	53.1	0.4

Industrial residues and waste	41.3	0.3
Edible oil	27.3	0.2
Cereals	12.3	0.1

¶6. (SBU) Recent economic data indicates that GBRV efforts to repress bilateral trade have been successful. Colombia's National Administrative Department of Statistics (DANE), Colombian exports to Venezuela fell by 4.5 percent over the first seven months of 2009 compared to the same period in 2008, according to one newspaper report. In July 2009, Colombian exports to Venezuela fell 28 percent. Sintesis Financiera, a Venezuelan consulting firm, predicts that total Colombian exports to Venezuela will drop by 12 percent in ¶2009.

COMMENT

¶7. (C) Contrary to initial expectations, Chavez appears determined to follow through on his threat to freeze commercial ties with Colombia. At the UN General Assembly on September 24, Chavez reiterated his desire to reduce trade with Colombia to zero, calling President Alvaro Uribe "a compulsive liar." According to Chavez's comments, the trade freeze is intended to punish the GOC for defense cooperation with the US and accusations that the GBRV has supplied weapons to the FARC. While the anti-trade measures are painful for both countries, Chavez seems willing to accept the economic costs, particularly since the effects are most severe in the border states of Zulia and Tachira, which are both run by opposition governors.
DUDDY